

103^D CONGRESS
1ST SESSION

H. R. 524

To allow a deduction for the amount of the premiums paid on a life insurance contract the beneficiary of which is a trust established for the benefit of a disabled individual, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 21, 1993

Mrs. MORELLA introduced the following bill; which was referred to the
Committee on Ways and Means

A BILL

To allow a deduction for the amount of the premiums paid on a life insurance contract the beneficiary of which is a trust established for the benefit of a disabled individual, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SPECIAL TAX TREATMENT FOR CERTAIN LIFE**

4 **INSURANCE CONTRACTS AND TRUSTS RELAT-**

5 **ING TO DISABLED INDIVIDUALS.**

6 (a) DEDUCTION ALLOWED.—Part VII of subchapter
7 B of chapter 1 of the Internal Revenue Code of 1986 (re-
8 lating to additional itemized deductions for individuals) is

1 amended by redesignating section 220 as section 221 and
2 by inserting after section 219 the following new section:

3 **“SEC. 220. PREMIUMS ON LIFE INSURANCE FOR THE BENE-**
4 **FIT OF DISABLED INDIVIDUALS.**

5 “(a) DEDUCTION ALLOWED.—In the case of an indi-
6 vidual, there shall be allowed as a deduction an amount
7 equal to the aggregate qualified life insurance premiums
8 paid or incurred by the taxpayer during the taxable year.

9 “(b) DEFINITIONS AND SPECIAL RULE RELATING TO
10 QUALIFIED DISABLED INDIVIDUAL’S LIFE INSURANCE.—
11 For purposes of this section—

12 “(1) QUALIFIED LIFE INSURANCE PREMIUMS.—
13 The term ‘qualified life insurance premium’ means
14 the premium under a qualified disabled individual’s
15 life insurance contract.

16 “(2) QUALIFIED DISABLED INDIVIDUAL’S LIFE
17 INSURANCE CONTRACT.—The term ‘qualified dis-
18 abled individual’s life insurance contract’ means any
19 life insurance contract which meets the following re-
20 quirements on each day (on which such contract is
21 in effect) of the taxpayer’s taxable year:

22 “(A) The exclusive beneficiary of the con-
23 tract is a qualified disabled individual’s trust.

24 “(B) All individuals who are named (at the
25 time such trust is established) as the income

1 beneficiaries of the trust are disabled individ-
2 uals.

3 “(C) The contract insures—

4 “(i) the life of the taxpayer,

5 “(ii) in the case of a taxpayer who is
6 married, the life of the spouse of the tax-
7 payer or the lives of the taxpayer and the
8 spouse, or

9 “(iii) in the case of a taxpayer who is
10 divorced, the life of the former spouse of
11 such taxpayer or the lives of the taxpayer
12 and the former spouse.

13 “(D) All incidents of ownership in the con-
14 tract are held by the taxpayer.

15 “(E) The face amount of the contract does
16 not exceed \$1,000,000.

17 “(3) DISABLED INDIVIDUAL.—The term ‘dis-
18 abled individual’ means, with respect to any calendar
19 year, any individual—

20 “(A) who is unable, by reason of any medi-
21 cally determinable physical or mental impair-
22 ment which can be expected to result in death
23 or which has lasted or can be expected to last
24 for a continuous period of not less than 10
25 years, to engage in the performance of personal

1 services for which such individual would have
2 been paid not less than the amount which is
3 equal to 2 times the full-time minimum wage
4 amount for such calendar year (or, in the case
5 of an individual who has not attained age 18,
6 who suffers from any medically determinable
7 physical or mental impairment of comparable
8 severity), and

9 “(B) whose adjusted gross income for such
10 calendar year does not exceed the amount which
11 is equal to 2 times the full-time minimum wage
12 amount for such calendar year.

13 “(4) FULL-TIME MINIMUM WAGE AMOUNT.—

14 The term ‘full-time minimum wage amount’ means
15 an amount equal to the amount of gross income an
16 individual would earn if such individual were em-
17 ployed and paid for 2,000 hours of service during
18 any calendar year at the minimum wage rate appli-
19 cable for such calendar year under section 6(a)(1) of
20 the Fair Labor Standards Act of 1938 (29 U.S.C.
21 206(a)(1)).

22 “(5) LIMITATION AND SPECIAL RULE ON NUM-
23 BER OF POLICIES TAKEN INTO ACCOUNT PER DIS-
24 ABLED INDIVIDUAL.—If the taxpayer has more than
25 1 life insurance contract which, but for this para-

1 graph, would be qualified disabled individual's life
2 insurance contracts for any taxable year with respect
3 to any disabled individual—

4 “(A) only one of such contracts may be
5 treated as a qualified disabled individual's life
6 insurance contract for such taxable year, and

7 “(B) the taxpayer shall designate which of
8 such contracts shall be so treated for such tax-
9 able year.

10 “(c) QUALIFIED DISABLED INDIVIDUAL'S TRUST
11 DEFINED.—For purposes of this section—

12 “(1) IN GENERAL.—The term ‘qualified dis-
13 abled individual's trust’ means a trust created or or-
14 ganized in the United States which may accumulate
15 income or distribute corpus and all the income bene-
16 ficiaries of which are one or more individuals each
17 of whom is a disabled individual at the time such
18 trust is established; but only if the written governing
19 instrument creating the trust meets the following re-
20 quirements:

21 “(A) At all times each trustee is a bank
22 (as defined in section 408(n)), a life insurance
23 company, a member in good standing of the bar
24 of the highest court of any State, or a member

1 of the family of any income beneficiary of the
2 trust.

3 “(B) At all times at least one trustee is a
4 person who is not a member of the family of
5 any income beneficiary of the trust.

6 “(C) If at any time the trust has more
7 than 3 trustees serving concurrently, at least
8 one-third of all such trustees are persons who
9 are not members of the family of any income
10 beneficiary of the trust.

11 “(D) Before the death of the last to die of
12 all individuals who are income beneficiaries of
13 the trust, the corpus of the trust and any net
14 accumulated income of the trust may be distrib-
15 uted only for the benefit of such individuals.

16 “(2) MEMBER OF THE FAMILY DEFINED.—The
17 term ‘member of the family’ means, with respect to
18 any individual, any spouse, former spouse, parent,
19 child, grandchild, brother, or sister of such individ-
20 ual. For purposes of the preceding sentence, the
21 term ‘parent’ includes the stepmother and stepfather
22 of such individual and any individual who has legally
23 adopted such individual.

24 “(d) TAX TREATMENT OF DISTRIBUTIONS FROM
25 TRUST.—

1 “(1) AMOUNT DISTRIBUTED EXCLUDED FROM
2 GROSS INCOME OF DISABLED INDIVIDUAL.—Not-
3 withstanding section 662(a), gross income of an in-
4 dividual who is an income beneficiary of a qualified
5 disabled individual’s trust does not include any
6 amount distributed from such trust to such individ-
7 ual in a calendar year in which such individual is a
8 disabled individual.

9 “(2) SECTION 661 DEDUCTION AND CREDIT OR
10 REFUND FOR TAXES DEEMED DISTRIBUTED AL-
11 LOWED.—Notwithstanding the application of para-
12 graph (1) to any distribution from a qualified dis-
13 abled individual’s trust to the individual for whose
14 benefit such trust was established—

15 “(A) the amount of such distribution shall
16 be allowed as a deduction for such trust to the
17 extent such deduction is otherwise allowable
18 under section 661, and

19 “(B) the amount of taxes deemed distrib-
20 uted to the income beneficiaries under section
21 666(b) and (c) shall, under regulations pre-
22 scribed by the Secretary, be available to the
23 trust as a credit against the trust’s income tax
24 liability computed without such credit or as a
25 refund of the trust’s income tax payments pre-

1 viously made. The taxable year or years of the
 2 trust for which such credit or refund shall be
 3 applicable shall be determined under the same
 4 regulations.”

5 (b) DEDUCTION ALLOWABLE WHETHER OR NOT
 6 TAXPAYER ITEMIZES OTHER DEDUCTIONS.—Subsection
 7 (a) of section 62 of such Code is amended by inserting
 8 after paragraph (13) the following new paragraph:

9 “(14) PREMIUMS ON LIFE INSURANCE FOR THE
 10 BENEFIT OF DISABLED INDIVIDUALS.—The deduc-
 11 tion allowed by section 220.”

12 (c) INSURANCE CONTRACT PROCEEDS EXCLUDED
 13 FROM GROSS ESTATE OF HOLDER AND INCLUDED IN
 14 GROSS ESTATE OF BENEFICIARY OF TRUST.—Section
 15 2042 of such Code (relating to estate tax treatment of
 16 the proceeds of life insurance) is amended—

17 (1) by striking out “The value of the gross es-
 18 tate” and inserting in lieu thereof “(a) IN GEN-
 19 ERAL.—The value of the gross estate”, and

20 (2) by adding at the end thereof the following
 21 new subsection:

22 “(b) PROCEEDS OF QUALIFIED DISABLED INDIVID-
 23 UAL’S LIFE INSURANCE CONTRACT.—For purposes of this
 24 chapter—

1 “(1) EXCLUSION FROM ESTATE ON DEATH OF
2 INSURED.—If a life insurance contract on the life of
3 the decedent is a qualified disabled individual’s life
4 insurance contract (within the meaning of section
5 220(b)(2)) on the date of the decedent’s death and
6 on at least 80 percent of the days on which such
7 contract is in effect, the value of the gross estate of
8 the decedent shall not include any portion of the
9 proceeds of such contract.

10 “(2) INCLUSION IN ESTATE ON DEATH OF BEN-
11 EFICIARY OF TRUST.—On the death of the last to
12 die of all individuals who are the income bene-
13 ficiaries of a qualified disabled individual’s trust (as
14 defined in section 220(c)), an amount equal to the
15 sum of—

16 “(A) any remaining portion of the corpus
17 of the trust which is attributable to the pro-
18 ceeds of any qualified disabled individual’s life
19 insurance contract, and

20 “(B) any remaining accumulated income of
21 the trust which is attributable to such proceeds,
22 shall be included in the gross estate of such individ-
23 ual and shall be subject to the tax imposed under
24 section 2001 in the manner provided in paragraph
25 (3).

1 “(3) PARAGRAPH (2) AMOUNT SUBJECT TO TAX
2 AT HIGHEST RATE.—The amount of the tax imposed
3 under section 2001(a) on the taxable estate of any
4 individual referred to in paragraph (2) shall be the
5 sum of the amounts computed separately as follows:

6 “(A) The amount determined under section
7 2001(b) for the amount of the taxable estate re-
8 duced by the amount which is attributable to
9 the amount included in the gross estate under
10 paragraph (2) (taking into account any deduc-
11 tion allowed with respect to such paragraph (2)
12 amount).

“(B) The amount determined for the amount of such taxable estate which is attributable to the amount included in the gross estate under paragraph (2) (taking into account any such deduction) by applying the highest rate provided in section 2001(c) to such amount.”

(d) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 of such Code is amended by striking the last item and by inserting the following new items:

“Sec. 220. Premiums on qualified disabled individual’s life insurance contracts.

“Sec. 221. Cross reference.”

1 (e) EFFECTIVE DATE.—The amendments made by
2 this section shall apply with respect to premiums under
3 a qualified disabled individual's life insurance contract
4 paid or incurred after the close of the 1st calendar year
5 ending after the date of the enactment of this Act, in tax-
6 able years ending after the close of such year.

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